

**REPORT ON EXAMINATION
OF
FIRST MERCURY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019**

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
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The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, reading "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 23 day of June, 2021

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May 26, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.005, dated November 22, 2019, an examination has been made of the affairs, financial condition and management of

FIRST MERCURY INSURANCE COMPANY

hereinafter referred to as the Company or FMIC. FMIC was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company located at 305 Madison Avenue, Morristown, New Jersey, 07960. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the three-year period from January 1, 2011 through December 31, 2014. This examination will cover the five-year period from January 1, 2015 through December 31, 2019, and encompasses a general review of transactions during the period, the Company's

business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2019. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Fairfax Group of regulated United States property and casualty insurance companies (Fairfax U.S. Group) as of December 31, 2019. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The Companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Crum & Forster Subgroup (Crum Group):

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
United States Fire Ins Co (USF)	21113	DE
Crum & Forster Specialty Ins Co (CFSIC)	44520	DE
North River Insurance Co (NRIC)	21105	NJ
First Mercury Ins Co (FMIC)	10657	DE
Crum & Foster Ind. Co (Indemnity)	31348	DE
Seneca Ins Co Inc. (SIC)	10936	NY
Seneca Specialty Ins Co. (Seneca Specialty)	10729	DE
Crum & Forster Ins Co (CFIC)	42471	NJ
American Underwriters Ins Co (AUIC)	10251	AK
MTAW Insurance Co (MTAW)	16498	DE

Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Hudson Insurance Co	25054	DE
Hudson Excess Insurance Co	14484	DE
Hudson Specialty Insurance Co	37079	NY

Odyssey Re Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Greystone Insurance Co	10019	CT
Odyssey Reinsurance Co	23680	CT

Zenith Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Zenith Insurance Co	13269	CA
ZNat Insurance Co	30120	CA

Allied World Subgroup ¹:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Allied World Natl Assur Co	10690	NH
Allied World Assur Co US Inc.	19489	DE
Allied World Surplus Lines Ins Co	24319	AK
Allied World Specialty Ins Co	16624	DE
Allied World Ins Co	22730	NH
Vantapro Specialty Ins Co	44768	AK
Vault Recip. Exch. FL NY	16186	FL
Vault E&S Ins Co	16237	AK

Riverstone Subgroup ²:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Commonwealth Insurance Co of America	10220	DE
TIG Insurance Co	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes

¹ Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Holdings Inc. The transaction closed on March 1, 2021

² TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc. (affiliate), effective April 30, 2018.

identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2019 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated as an Illinois stock insurance corporation on June 20, 1996. The Company became a part of an insurance holding company system on June 25, 1996, when First Mercury Syndicate, Inc. (Syndicate), an Illinois business corporation, acquired 100% of the common shares of the Company. The Syndicate was then operating as an underwriting member of the Illinois Insurance Exchange (IIE). On November 7, 1996, the Syndicate and the IIE executed a withdrawal agreement that set forth the terms of the Syndicate's withdrawal from the IIE. Effective November 14, 1996, in connection with the withdrawal, the Syndicate was merged into the Company with the Company being the surviving entity. Effective December 16, 1996, the Illinois Department of Insurance (IDOI) issued a Certificate of Merger recognizing the merger of the Syndicate into the Company.

On June 15, 2004, the IDOI issued the Company an Amended Certificate of Authority allowing the Company to reorganize as a domestic surplus lines insurer.

On February 9, 2011, First Mercury Financial Corporation (FMFC) merged with Fairfax Investments III USA Corporation, a Delaware corporation, and a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited (FFHL). Following the merger, FFHL contributed all of its shares of the surviving corporation, FMFC, to Crum & Forster Holdings Corporation (Crum Holdings), a Delaware corporation and an indirect wholly-owned subsidiary of FFHL.

Effective July 1, 2011, FMIC merged with an affiliate, First Mercury Casualty Company (FMCC), a Minnesota stock insurance company. Under the terms of an Agreement and Plan of Merger, FMCC merged with and into FMIC with the result that FMIC was the surviving company and FMCC ceased to exist.

Effective October 28, 2015, the Company re-domesticated to the State of Delaware.

During March 2016, Crum Holdings and FMFC merged with Crum Holdings was the surviving Corporation. Effective March 15, 2016, Crum Holdings contributed the capital stock of FMIC to USF.

Capitalization

The Company's Certificate of Incorporation was amended on October 28, 2015, and authorizes the company to issue 8,000 common shares with a par value of \$1,000 per share. The company is also authorized to issue 2,000 preferred shares with a par value of \$1,000 per share. As of December 31, 2019, the Company had 6,410 common shares outstanding totaling \$6,410,258, all of which are owned by USF).

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property, business and affairs of the Company shall be managed by a Board of Directors (Board). The bylaws require the Board consist of three directors but not more than seven.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected. Directors duly elected and serving as of December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	President, Chairman of the Board, & CEO
Arleen A. Paladino	Senior Vice President & CFO
Anthony R. Slimowicz	Executive Vice President & COO

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, and may elect one or more Vice Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents and Assistant Secretaries. The Board may also elect a Chairman of the Board of Directors and a Chief Executive Officer at its discretion. The primary officers serving as of December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	President, Chairman of the Board, & CEO
Aleen A. Paladino	Senior Vice President & CFO
James V. Kraus	Senior Vice President, General Counsel & Secretary

Corporate Records

The recorded minutes of the Shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as FFHL as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. FFHL is a publicly listed company whose subordinate voting shares trade on the Toronto Stock Exchange under the symbol FFH. As of December 31, 2019, FFHL had consolidated assets of \$70,508 million and shareholders' equity of \$17,907million. 18 *Del. C.* §5001(3) states that "...Control shall

be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of any other person.” Pursuant to this presumption, V. Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of the voting shares of the FFHL as of the examination date, are considered ultimate controlling entities of the Company.

An abbreviated organizational chart of FFHL as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates’ control of the downstream affiliate is presented below:

		Equity Ownership Percentage	Voting Control Percentage	
V. Prem Watsa and the Watsa Family Trust {1}{8}	{2}	6.73 %	42.49%	{3}
All Other Publicly Traded Shares Held {4}	{5}	93.27%	57.51%	{6}
Fairfax Financial Holdings Limited [Canada] {7}		100.0%	100.0%	
FFHL Group Ltd. [Canada]		100.0%	100.0%	
Fairfax (US) Inc. [DE]*		93.98%	93.98%	
Crum & Forster Holdings Corp. [DE]		100.0%	100.0%	
United States Fire Insurance Company [DE]		100.0%	100.0%	
Crum & Forster Specialty Insurance Company [DE]		100.0%	100.0%	
Crum & Forster SPC Reinsurance Company [Cayman Islands]		100.0%	100.0%	
Crum & Forster SPC [Cayman Islands]		100.0%	100.0%	
American Underwriters Insurance Company [AK]		100.0%	100.0%	
The North River Insurance Company [NJ]		100.0%	100.0%	
Seneca Insurance Company, Inc. [NY]		100.0%	100.0%	
MTAW Insurance Company [DE]		100.0%	100.0%	
Seneca Specialty Insurance Company [DE]		100.0%	100.0%	
Crum & Forster Insurance Company [NJ]		100.0%	100.0%	
Crum & Forster Indemnity Company [DE]		100.0%	100.0%	
First Mercury Insurance Company [DE]		100.0%	100.0%	

As of December 31, 2019, unless otherwise indicated

* FFHL directly owns 6.02% of Fairfax (US) Inc. (Fairfax US) and indirectly owns the remaining 93.98% through FFHL Group Ltd.

Notes 1 through 8 more fully describe the ownership and voting percentages throughout the holding company.

- {1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The One Zero Nine Holdco Limited and The Sixty Two Investment Company Limited.
- {2} Calculated as follows:

Description	Shares Outstanding	Shares Owned/Controlled	Percentage of total shares outstanding
Total SVS Shares outstanding	26,082,299		
SVS Shares owned personally and through 1109 HoldCo		258,790	0.9922%
Additional SVS shares under control and direction		2,100	0.0081%
SVS Shares held through Sixty Two HoldCo		<u>50,620</u>	<u>0.1941%</u>
Total SVS shares owned/controlled		311,510	1.1943%
Total MVS Shares Outstanding	<u>1,548,000</u>		
Total MVS + SVS Shares Outstanding	<u>27,630,299</u>		
MVS Shares owned and controlled through Sixty Two Holdco		<u>1,548,000</u>	<u>100%</u>
Total MVS + SVS Shares owned and controlled by Mr. Watsa		<u><u>1,859,510</u></u>	<u><u>6.73%</u></u>

- {3} Calculated as 0.58% through V. Prem Watsa and 41.91% through ownership in the three entities as described above. It should be noted that pursuant to Canadian securities filing requirements, 2100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and/or direction of Mr. Watsa and are therefore included in the voting control percentages reported herein.

- {4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFH as of December 31, 2019.
- {5} Calculated as 100.00% - 6.73% {2}.
- {6} Calculated as 100.00% - 42.49% {3}.
- {7} FFH common shares are publicly-traded on the Toronto Stock Exchange) in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. As December 31, 2019, FFH has issued 1,548,000 multiple voting common shares, 26,082,299 subordinate voting common shares, 58,239,178 non-voting preferred Series C thru M. FFH's equity attributable to Shareholders as of December 31, 2019, totals \$14,378.1 million (\$U.S.) which consists of \$13,042.6 million (includes \$3.8 million of multiple voting shares) related to voting common shares (90.71% of the total) and \$1,335.5 million related to non-voting preferred shares (9.29% of the total).
- {8} During the second quarter of 2020, Mr. V. Prem Watsa purchased an additional 482,600 subordinate voting common shares through 12002574 Canada Inc., which is wholly owned by him, with the result that the total aggregate voting control increased from 42.49% to 43.61% as at June 30, 2020.

Agreements with Affiliates

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following material intercompany agreements in effect as of December 31, 2019:

Administrative Services Agreement

Effective February 9, 2011, FMIC entered into an Administrative Services Agreement with USF whereby USF provides claims and administrative services to the Company. This agreement was accepted as filed by the IDOI on March 17, 2011.

Investment Management Agreement

Effective March 17, 2011, FMIC entered into an Investment Management Agreement with Hamblin Watsa Investment Counsel Ltd. (Hamlin Watsa) and FFHL whereby Hamlin Watsa and FFHL provide monthly and periodic investment administrative services. This Agreement was accepted as filed by the IDOI on March 17, 2011.

California Wholesale Surplus Lines Broker Agreement

Effective October 1, 2014, and amended on May 1, 2015, FMIC entered into a California Wholesale Surplus Lines Broker Agreement with CoverX Corporation (CoverX). The Agreement authorized CoverX to bind insurances and amendments for the Company's account in California in accordance with written binding authority guidelines prepared by FMIC.

Administrative Services Agreement

Effective October 1, 2014, and amended May 1, 2015, FMIC entered into an Administrative Services Agreement with CoverX whereby CoverX provides certain underwriting, policy administration and general services to the Company. The company and broker amended the Compensation Structure within the agreement. This Agreement was accepted as filed by the IDOI on October 6, 2014.

Surplus Lines Broker and Limited Binding Authority Agreement

Effective October 1, 2014, and amended on May 1, 2015, FMIC entered into a Surplus Lines Broker and Limited Binding Authority Agreement with CoverX. The Agreement authorized CoverX to bind insurances and amendments for the Company's account in all states except California in accordance with written binding authority guidelines prepared by the Company. The Company and broker amended the Compensation Structure within the agreement. This Agreement was accepted as filed by the IDOI on October 22, 2014.

Master Administrative Services Agreement

Effective November 1, 2014, FMIC entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of FFHL. Each party to the agreement may provide certain administrative services to any other party. Each party

provides quarterly detailed statements to each company to which it provided services during the quarter. Effective August 1, 2018, this agreement was amended to add the Allied World subgroup.

Tax Allocation Agreement

Effective January 1, 2009, FMIC became a party to a tax allocation agreement with Crum Holdings along with certain affiliates. Crum Holdings, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed as a Domestic Surplus Lines Insurer in Delaware and is eligible/authorized to write business on an Excess & Surplus lines basis in the 49 other states, District of Columbia and the U.S Virgin Islands.

Plan of Operation

The Company underwrites business produced primarily by licensed excess and surplus lines wholesale brokers on an individual risk submission basis. Underwriting operations are located in the Morristown, New Jersey office of USF.

The Company's strategy is to emphasize lines of business where strong technical underwriting skills and judgment are required. A number of products are offered to a wide range of classes of business including general liability and product liability coverages not serviced by the admitted market.

The filed Annual Statement for 2019, the Company reported the following distribution of Direct Premiums Written:

Line of Business	Direct Premium Written	Percentage of Direct Premium Written
Other liability - Occurrence	\$ 91,962,032	54%
Products liability - Occurrence	47,759,191	28%
Commercial multiple peril	28,300,594	17%
Other liability - claims-made	660,952	0.39%
Products liability - claims-made	<u>625,631</u>	<u>0.37%</u>
Total Direct Premium Written	\$ 169,308,400	100%

REINSURANCE

The Company reported the following distribution of net premiums written for 2019:

Direct	\$169,308,400
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	<u>0</u>
Total gross (direct and assumed)	\$169,308,400
Reinsurance ceded to affiliates	\$169,308,400
Reinsurance ceded to non-affiliates	<u>0</u>
Total ceded	\$169,308,400
Net premiums written	<u><u>\$ 0</u></u>

Ceded

As of December 31, 2019, the Company had no external cessions with third party reinsurers.

Affiliated Reinsurance

The Company has in place a 100% quota share reinsurance agreement with USF. Under the terms of the agreement the Company cedes 100% of all business written to USF.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period December 31, 2014 to December 31, 2019

FIRST MERCURY INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2019

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 27,252,118	\$ -	\$ 27,252,118
Real estate	7,667,355	-	7,667,355
Cash	25,541,091	-	25,541,091
Short Term Investments	5,842,309	-	5,842,309
Receivables for securities	-	-	-
Subtotals, cash and invested assets	<u>\$ 66,302,873</u>	<u>\$ -</u>	<u>\$ 66,302,873</u>
Investment income due and accrued	207,240	-	207,240
Uncollected premiums and agents' balances	4,324,038	2,845,103	1,478,935
Deferred premiums	3,823,518	382,352	3,441,166
Amounts recoverable from reinsurers	47,947,408	-	47,947,408
Funds held by or deposited with reinsured companies	-	-	-
Current federal and foreign income tax recoverable	114,344	-	114,344
Net deferred tax asset	114,345	-	114,345
Receivables from parent; subsidiaries and affiliates	139,777	-	139,777
Aggregate write-ins for other than invested assets	<u>8,187,135</u>	<u>1,252,828</u>	<u>6,934,307</u>
Total Assets	<u><u>\$ 131,160,678</u></u>	<u><u>\$ 4,480,283</u></u>	<u><u>\$ 126,680,395</u></u>

**FIRST MERCURY INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2019**

	<u>2019</u>	<u>Note</u>
Losses	\$ -	1
Reinsurance payable on paid losses and loss adjustment expenses	55,802	
Loss adjustment expenses	-	
Commissions payable; contingent commissions and other similar charges	-	
Other expenses (excluding taxes; licenses and fees)	102,319	
Unearned premiums	-	
Ceded reinsurance premiums payable (net of ceding commissions)	9,147,629	
Funds held by company under reinsurance treaties	2,265,875	
Amounts withheld or retained by company for account of others	106,208	
Payable to parent; subsidiaries and affiliates	49,431,027	
Aggregate write-ins for liabilities	14,001	
Total liabilities excluding protected cell liabilities	<u>61,122,861</u>	
Total liabilities	\$ <u>61,122,861</u>	
Aggregate write-ins for special surplus funds	\$ -	
Common capital stock	6,410,258	
Preferred capital stock	20,850	
Gross paid in and contributed surplus	72,313,094	
Unassigned funds (surplus)	<u>(13,186,668)</u>	
Surplus as regards policyholders	\$ <u>65,557,534</u>	
Totals of liabilities & surplus	\$ <u>126,680,395</u>	

**FIRST MERCURY INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019**

Premiums earned		\$	-
	Deductions		
Losses incurred		\$	-
Loss adjustment expenses incurred			-
Other underwriting expenses incurred			<u>(228,626)</u>
	Total underwriting deductions		<u>\$ (228,626)</u>
Net underwriting gain (loss)			<u>\$ 228,626</u>
	Investment Income		
Net investment income earned		\$	272,333
Net realized capital gains (losses) less capital gains tax of \$2,460			<u>8,775</u>
Net investment gain (loss)			<u>\$ 281,108</u>
	Other Income		
Net gain (loss) from agents' or premium balances charged off		\$	-
Finance and service charges not included in premium			-
Aggregate write-ins for miscellaneous income			<u>(97,245)</u>
Total other income			<u>\$ (97,245)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes			<u>\$ 412,489</u>
Dividends to policyholders			<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes			<u>\$ 412,489</u>
Federal and foreign income taxes incurred			<u>(114,170)</u>
Net Income			<u><u>\$ 526,659</u></u>

**FIRST MERCURY INSURANCE COMPANY
CAPITAL & SURPLUS ACCOUNT
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Surplus as regards to policyholders; December 31, 2018	\$ 63,916,614
Net income	526,659
Change in net unrealized capital gains (losses) less capital gains tax of \$0	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	(114,340)
Change in nonadmitted assets	1,228,601
Change in provision for reinsurance	-
Capital Changes: Paid in	-
Surplus adjustment: Paid in	-
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	-
Aggregate write-ins for gains and losses in surplus	-
Net change in capital and surplus for the year	<u>\$ 1,640,920</u>
Capital and surplus; December 31, 2019	<u><u>\$ 65,557,534</u></u>

**FIRST MERCURY INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2014 TO DECEMBER 31, 2019**

	Common Capital Stock		Preferred Capital Stock	Gross Paid-in and Contributed Surplus		Unassigned Surplus		Treasury Stock
12/31/2014	\$ 5,484,320		\$ 20,850	\$ 64,846,104		\$ (12,418,178)		\$ (2,071,140)
12/31/2015	-		-	-		(5,372,007)		-
12/31/2016	(83,062)	(5)	-	(1,524,010)	(5)	(464,068)	(5)	2,071,140
12/31/2016	-		-	-		437,019	(1)	-
12/31/2017	-		-	-		1,792,741	(1)	-
12/31/2018	1,009,000	(6)		8,991,000	(3)			-
12/31/2018						1,196,905	(1)	
12/31/2019	-		-	-		1,640,920	(1)	-
	<u>\$ 6,410,258</u>		<u>\$ 20,850</u>	<u>\$ 72,313,094</u>		<u>\$ (13,186,668)</u>		<u>\$ -</u>

- (1) Represents net income, change in unrealized capital gains(losses), change in net deferred income tax, change in non-admitted assets.
- (2) Capital Changes: Transferred to surplus.
- (3) Surplus adjustments: Paid in.
- (4) Surplus adjustments: Transferred from capital.
- (5) Change in Treasury Stock – Retired by Unanimous Written Consent (UWC) on March 23, 2016.
- (6) Capital Changes: Paid in - Board approved the issuance of common stock via Unanimous Written Consent on December 28, 2018.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

<u>Losses</u>	<u>\$0</u>
<u>Loss Adjustment Expenses</u>	<u>\$0</u>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principles No. 55.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national, state and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to

reduced exposures. Company Management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments, and estimates reported in the financial statements and accompanying notes.

The Company and FFHL do not directly consider a pandemic event in their regular stress testing, the potential credit and market price fluctuation risks arising from COVID-19 crisis are captured in regular stress testing conducted, both at the Fairfax level and subsidiary group level (including the Crum Group) and the performance of Fairfax's subsidiaries investment portfolios since the start of the crisis falls within expectations. With nearly \$10 billion of cash and short-term investments held across its insurance portfolios at year end 2019, FFHL believes it has ample liquidity to withstand a prolonged economic slowdown.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Crum Group, but they do not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and was providing services to its policyholders.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

There were no other material subsequent events noted.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

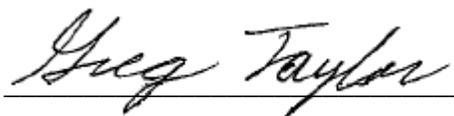
There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

SUMMARY OF RECOMMENDATIONS

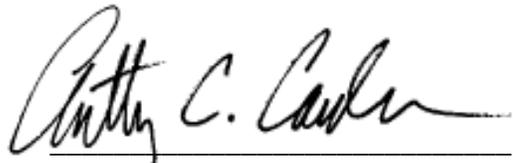
There were no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting investment specialist, Rutter Associates LLC, the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Greg Taylor". The signature is written in black ink and is positioned above a solid horizontal line.

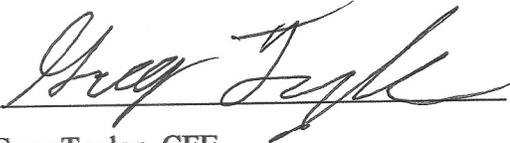
Greg Taylor, CFE
Examiner In-Charge
State of Delaware

A handwritten signature in cursive script that reads "Anthony C. Cardone". The signature is written in black ink and is positioned above a solid horizontal line.

Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

First Mercury Insurance Company

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.005.



Greg Taylor, CFE